



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2011 Biennium

<b>Bill #</b>	HB0503	<b>Title:</b>	Revise law on parimutuel wagering on fantasy sports
<b>Primary Sponsor:</b>	McChesney, Bill	<b>Status:</b>	As Introduced

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts           | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$390,501	\$209,135	\$210,583	\$212,068
Other	(\$852,150)	(\$852,150)	(\$852,150)	(\$852,150)
<b>Revenue:</b>				
General Fund	(\$314,450)	(\$323,200)	(\$315,700)	(\$323,200)
State Special Revenue	\$80,500	\$226,200	\$226,200	\$226,200
Other	(\$852,150)	(\$852,150)	(\$852,150)	(\$852,150)
<b>Net Impact-General Fund Balance:</b>	<u>(\$314,450)</u>	<u>(\$323,200)</u>	<u>(\$315,700)</u>	<u>(\$323,200)</u>

### Description of fiscal impact:

The bill transfers responsibility for regulating pari-mutuel fantasy league wagering from the Board of Horse Racing to the Department of Justice, Gambling Control Division, and re-allocates money from the Board of Horse Racing to the health and medicaid initiatives state special revenue account. However, based on the following assumptions the Gambling Control Division would incur more expenses than revenue generated to administer the game. There will be a negative impact to the state general fund due to a reduction of the transfer for lottery profits.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Justice (DOJ)**

1. The department assumes it will license three pari-mutuel networks.
2. The department assumes the game will be permitted in 420 pari-mutuel facilities.

3. The department assumes that revenue generated by each network will produce an amount that is approximately twice the highest weekly wagers placed with the Lottery's existing Sports Action fantasy game in FY 2009, or approximately \$10,000 per week per network.
4. The department assumes that each network and facility will be running weekly leagues for the 52 weeks per year.
5. The total revenue generated for takeout will be \$405,600 [ $\$10,000 * 52 \text{ weeks} * 3 \text{ networks} = \$1,560,000$  in total wagered; payback to players  $\$1,560,000 * 0.74 = \$1,154,400$ ; and takeout  $\$1,560,000 * 0.26 = \$405,600$ ].
6. Of the revenue collected, 38.4616% will be distributed to the department's state special revenue account [ $\$405,600 * .384616 = \$156,000$ ]; but according to section 11, subsection (3)(b)(iii), no more than 10% of the amount collected may be appropriated by the legislature and the remaining amount will be distributed to the health and medicaid initiatives state special revenue account. Therefore, the amount allocated annually for the administration of this chapter would be \$15,600 [ $\$156,000 * 0.10 = \$15,600$ ] and the health and medicaid initiatives account would receive \$140,400 [ $\$156,000 - \$15,600 = \$140,400$ ].
7. The remaining revenue, \$249,600 per year, is distributed evenly between the parimutuel facility licensee and the network licensee as an administrative fee as provided in the bill.
8. The department assumes that each licensed network will make payments of the state's share each week.
9. The department assumes networks and locations will be operating six months in FY 2010, therefore, revenues in FY 2010 are assumed to be half of the revenue projected for a full year.
10. The department assumes it will need to hire a 1.00 FTE, investigator by October 1, 2009 to help license, inspect, and follow up on complaints about the system. It is assumed the base salary will increase 2.5% in FY 2012 and FY 2013. Therefore, the personal services costs are as follows: FY 2010 - \$43,001, FY 2011 - \$57,935, FY 2012 - \$60,088, FY 2013 - \$62,115
11. It is assumed the operating expenses will be \$6,000 per year for travel, rent, communications and supplies. The department is assuming there will not be any growth in expenses.
12. In FY 2010, \$18,800 in equipment costs are expected for a vehicle and law enforcement related equipment.
13. The department estimates there will be an additional \$48,000 in expenses for contracted services or overtime in the test lab in FY 2010 for testing the new systems and \$4,800 each fiscal year thereafter for modifications and approvals.
14. The department's database vendor has estimated it will cost \$200,000 in FY 2010 to add one more tax or account type to the system. The standard charge is between \$200,000 and \$300,000.
15. The department assumes it will cost \$4,500 in FY 2010 for MII to modify the state's web portal by adding this account/tax type functionality.
16. The shortfall to the Gambling Control Division will be paid for out of the Gambling Control Division's state special revenue account (\$312,501 – FY 2010, \$53,135 – FY 2011, \$54,583 – FY 2012, \$56,068 – FY 2013).

#### **Department of Livestock – Board of Horse Racing**

17. It is assumed that Fantasy Football will gross revenue of \$125,000 each year and Fantasy Auto Racing will generate \$220,000 yearly for a total gross of \$345,000 yearly. The winners receive 74% of the revenue. Of the remaining 26% the Department of Livestock receives 61.5385% as per 23-4-302 5(b)(iii) MCA. This amounts to \$55,200 state special revenue yearly to the Board of Horse Racing state special account. This bill eliminates this revenue from the BOHR that is administratively attached to the Department of Livestock.
18. It is assumed that there are 250 outlets in FY 2010 and 300 in FY 2011 and beyond that pay a \$75 yearly license fee. The Department of Livestock, BOHR receives \$50 from each license. This amounts to \$12,500 in FY 2010 and \$15,000 in FY 2011 and beyond. This bill eliminates this revenue. This is provided for in and interagency agreement that would no longer exist under this bill.
19. It is assumed that a total of \$67,700 revenue will be lost in FY 2010 and \$70,200 in FY 2011 and beyond.

20. It is assumed that this loss of revenue will require laying off staff and closing the BOHR office.

**Montana Lottery**

21. Montana Lottery has an Inter Agency Agreement with the Board of Horse Racing to conduct the fantasy games on behalf of the Board of Horse Racing.

22. Montana Lottery has added approximately 200 retailers to sell fantasy games and traditional lottery games. Montana Lottery will most likely lose the 200 Sports Action Retailers, therefore losing revenue from fantasy sports action wagering and traditional Lottery games.

23. The loss of revenue will result in a loss in the transfer of lottery profits to the general fund.

24. The Lottery assumes sales will remain steady in FY 2010 and it is impossible to estimate sales for FY 2011, FY 2012, and FY 2013.

25. The change in sales between the fiscal years is a result of the difference in allocation of license revenue between Board of Horse Racing and the Montana Lottery.

**Department of Health and Human Services**

26. There is a transfer into the health and medicaid initiatives state special revenue account - \$70,000 in FY 2010 and \$140,000 in FY 2011 and thereafter.

27. There is no appropriation provided for in this bill so no expenditures are shown.

	<b><u>FY 2010 Difference</u></b>	<b><u>FY 2011 Difference</u></b>	<b><u>FY 2012 Difference</u></b>	<b><u>FY 2013 Difference</u></b>
<b><u>Fiscal Impact:</u></b>				
<b>Department of Justice - Gambling Control</b>				
<b>FTE</b>	1.00	1.00	1.00	1.00
<b><u>Expenditures:</u></b>				
Personal Services	\$43,001	\$57,935	\$59,383	\$60,868
Operating Expenses	\$258,500	\$10,800	\$10,800	\$10,800
Equipment	\$18,800	\$0	\$0	\$0
Transfers (health and medica	\$70,200	\$140,400	\$140,400	\$140,400
<b>TOTAL Expenditures</b>	<b>\$390,501</b>	<b>\$209,135</b>	<b>\$210,583</b>	<b>\$212,068</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
SSR - Gambling Control	\$390,501	\$209,135	\$210,583	\$212,068
<b>TOTAL Funding of Exp.</b>	<b>\$390,501</b>	<b>\$209,135</b>	<b>\$210,583</b>	<b>\$212,068</b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
SSR - Gambling Control	\$78,000	\$156,000	\$156,000	\$156,000
<b>TOTAL Revenues</b>	<b>\$78,000</b>	<b>\$156,000</b>	<b>\$156,000</b>	<b>\$156,000</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
SSR - Gambling Control	(\$312,501)	(\$53,135)	(\$54,583)	(\$56,068)

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<b><u>Fiscal Impact:</u></b>				
<b>Department of Livestock - Board of Horse Racing</b>				
<b><u>Expenditures:</u></b>				
Operating Expenses	(\$67,700)	(\$70,200)	(\$70,200)	(\$70,200)
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	(\$67,700)	(\$70,200)	(\$70,200)	(\$70,200)
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	(\$67,700)	(\$70,200)	(\$70,200)	(\$70,200)
<b>TOTAL Revenues</b>	<u>(\$67,700)</u>	<u>(\$70,200)</u>	<u>(\$70,200)</u>	<u>(\$70,200)</u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<b><u>Fiscal Impact:</u></b>				
<b>Montana Lottery</b>				
<b><u>Expenditures:</u></b>				
Operating Expenses	(\$852,150)	(\$852,150)	(\$852,150)	(\$852,150)
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
Other	(\$852,150)	(\$852,150)	(\$852,150)	(\$852,150)
<b>TOTAL Funding of Exp.</b>	<u>(\$852,150)</u>	<u>(\$852,150)</u>	<u>(\$852,150)</u>	<u>(\$852,150)</u>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$314,450)	(\$323,200)	(\$315,700)	(\$323,200)
Other	(\$852,150)	(\$852,150)	(\$852,150)	(\$852,150)
<b>TOTAL Revenues</b>	<u>(\$1,166,600)</u>	<u>(\$1,175,350)</u>	<u>(\$1,167,850)</u>	<u>(\$1,175,350)</u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$314,450)	(\$323,200)	(\$315,700)	(\$323,200)
Other	\$0	\$0	\$0	\$0

	<b><u>FY 2010 Difference</u></b>	<b><u>FY 2011 Difference</u></b>	<b><u>FY 2012 Difference</u></b>	<b><u>FY 2013 Difference</u></b>
<b><u>Fiscal Impact:</u></b>				
<b>Department of Health and Human Services</b>				
<b><u>Expenditures:</u></b>				
Operating Expenses	\$0	\$0	\$0	\$0
<b><u>Funding of Expenditures:</u></b>				
State Special Revenue (02)	\$0	\$0	\$0	\$0
<b><u>Revenues:</u></b>				
SSR - health and medicaid (transfer)	\$70,200	\$140,400	\$140,400	\$140,400
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
SSR - health and medicaid	\$70,200	\$140,400	\$140,400	\$140,400

**Technical Notes:**

1. The department has general rule making authority but there is no specific direction with respect to pari-mutuel fantasy wagering. There should be specific direction to develop rules for network and system specifications and testing, licensing procedures, and collection of the state's share of the amount wagered.
2. The definition section refers to licensed parimutuel networks and facilities, and simulcast pari-mutuel networks but doesn't provide for an application or license fee.
3. Section (3)(b)(iii) of section 11 allows the legislature to appropriate no more than \$316,000 for FY 2009 – the current biennium. As written, the \$316,000 appropriation would not be available in the FY 2010-FY 2011 and since only 10% of the state's share of the take can be allocated to cover the cost of administering this chapter the department would have to draw on other state special revenue if available to cover costs.

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*Sponsor's Initials*\_\_\_\_\_  
*Date*\_\_\_\_\_  
*Budget Director's Initials*\_\_\_\_\_  
*Date*